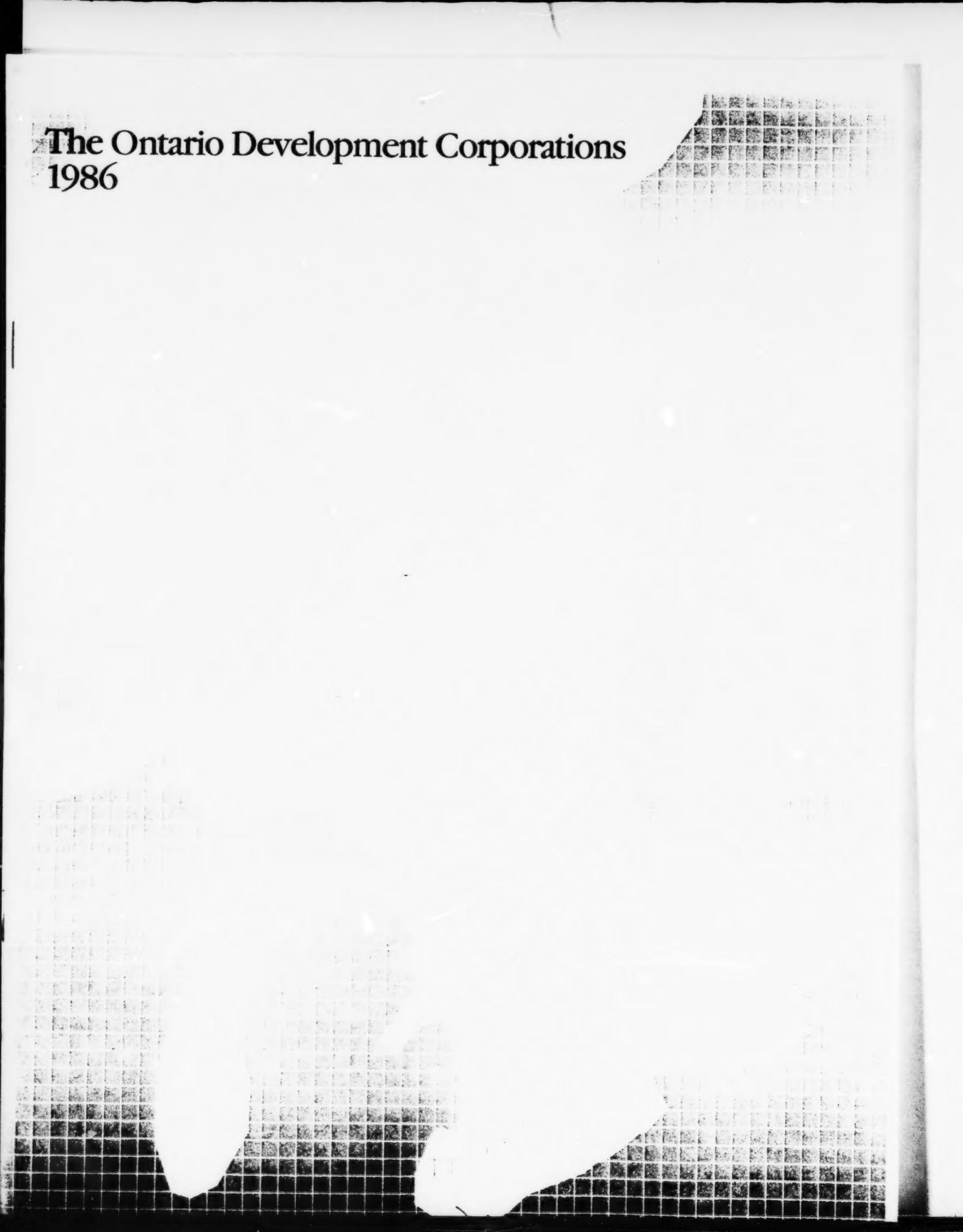
The Ontario Development Corporations 1986



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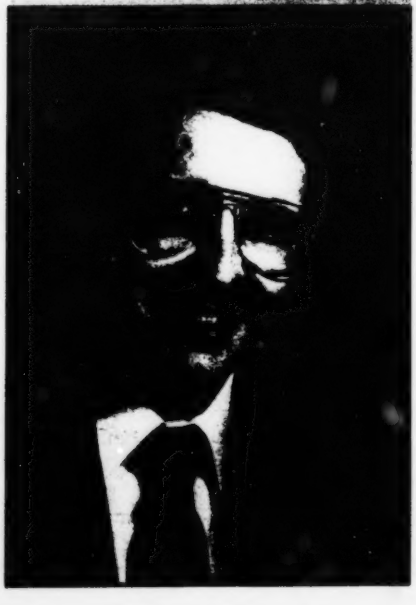
Minister's Message



This has been a significant and eventful year for the Ontario Development Corporations. In the past twelve months we have witnessed new programs and unprecedented growth in existing activities. As well, we have embarked on major internal reforms designed to strengthen the unique partnership between Ontario's private and public sectors that these institutions represent.

Both the North and the East have benefitted significantly from this increased development activity – the result of a more flexible approach to financial programs, and an increased awareness of the unique economic situation of each region and each business we serve.

In coming months, I expect the modernization initiatives for the corporations that I announced in the Legislative Assembly last November to result in even better service to our customers. In the final analysis, getting closer to customers and serving their needs is our primary objective. I take pleasure, consequently, in presenting this report of the Ontario Development Corporations for 1986. It describes how we have sought to achieve this goal.

Hugh P. O'Neil
Minister of Industry, Trade and Technology

Message from the President and Chief Executive Officer

Starting a small business is neither easy nor immediately rewarding. In many cases, it takes considerable courage to face the difficult early days, the absence of quick rewards, and the remarkably hard work that most start-ups demand. The development corporations encourage this early stage development by providing advice, and by sharing the very high technical and financial risks of new business development.

Much of the corporations' focus is towards encouraging the technological modernization of Ontario's industry. The current entrepreneurial resurgence is every bit as significant as the industrial revolution of the last century. It depends on the creativity of thousands of men and women, mostly working in very small businesses, for its continuation. The boards and staff believe that every person or business helped in the early stages of business development by the Ontario Development Corporations is an important contribution to the future prosperity of the province, and the growth of its technological base.

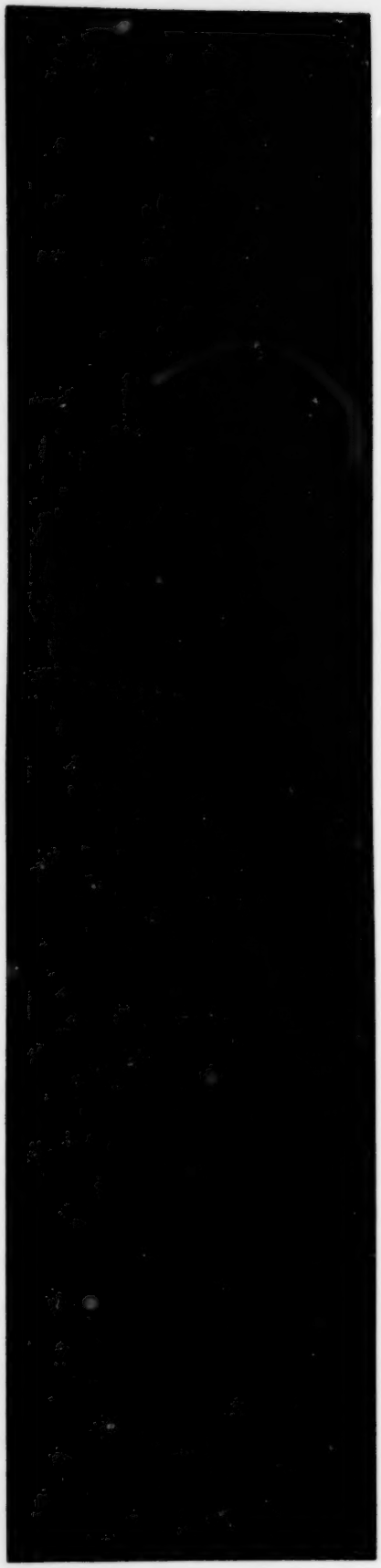
The corporations are also designed to help smaller enterprises compete in international markets. To accomplish this, we have programs that explicitly encourage small businesses to export, a process which is often a major step in their life cycle and one that is accompanied by considerable risks. The corporations try to narrow the risks for small business exporters with high potential.

Because each part of the province has its own mix of economic opportunities and disparities, we have established three distinctive development agencies to address these needs: the Ontario Development Corporation (serving Central and Southwestern Ontario), the Northern Ontario Development Corporation, and the Eastern Ontario Development Corporation. Each corporation tailors its programs to the specific characteristics of each region of Ontario. Encouraging and aiding the growth of new technology-based enterprises throughout Ontario is the first priority of the new Innovation Ontario Corporation.

The corporations' lending procedures are being streamlined to enable the corporations to respond more efficiently to our customers' needs. We recognize that our performance in this respect has been hampered by insufficient use of modern computer technology and an outdated organizational structure. Both problems are being addressed with vigour.

The corporations have a history of genuine achievement. We have played a key role in the provision of high risk loans to many small businesses which have moved on to make important contributions to Ontario's economy. We have developed two obsolete military bases into major industrial facilities at no cost to the taxpayer. We have long provided effective agency and trust services to other ministries. But time stands still for no one and no institution. The substantial changes underway in all aspects of our operations will create a fully modern organization that will be an important cornerstone to Ontario's regional and industrial policy for the rest of this century and beyond.

David MacKinnon (seated centre) with senior staff at regular Tuesday meeting.



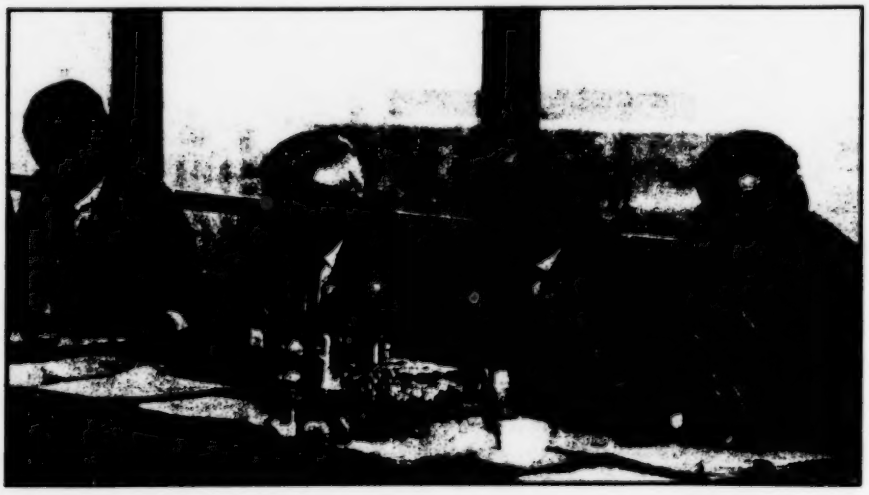
Boards of Directors

The Boards of Directors manage and control the affairs of the corporations. They are charged with recommending to the Minister of Industry, Trade and Technology, policies and regulations affecting the corporations. They also pass by-laws to regulate their proceedings as they apply to the conduct and management of the corporations' business.

In addition to their policy function, the boards review and approve applications for financial assistance. The appropriate board deals directly with applications in excess of $100,000, while requests for smaller amounts are handled at staff levels.

Applications in excess of $250,000 require approval by Cabinet and Order-in-Council.

To ensure that the requirements of all regions are adequately represented, board members are chosen from the business and professional communities of their respective regions.



EODC board members John Guthrie, Bob Leach, Arnie Jackson, and Jean Rivard at a recent board of directors meeting.

A History of Achievements

It's been brisk business, with rewarding results for the Ontario Development Corporations as we know them today, since they started life in 1963 as the Ontario Development Agency.

An act of the Legislature established the Ontario Development Corporation (ODC) in 1966, empowering it as a crown corporation to give term, mortgage and working capital loans and bank loan guarantees.

The Northern Ontario Development Corporation (NODC) was created in 1970, and three years later the Eastern Ontario Development Corporation (EODC) came into being, making ODC services more responsive to local needs.

The newest member on the development corporations team is Innovation Ontario Corporation (IOC), created to stimulate the growth of technology-based companies and their products, processes and services.

Established in the Fall of 1986, IOC has a mandate to reduce risks in the launching of new technology firms by providing financial participation, as well as a range of technical, business and information services to Ontario inventors, entrepreneurs and small-to-medium sized businesses.

Ten years ago 258 corporation loans and guarantees totalling $33.6 million were provided to small and medium-sized businesses.

In 1986, the corporations approved 666 loans and guarantees totalling $61.6 million for small and medium-sized manufacturing enterprises.

They also provided 90 small businesses and exporters with loans totalling $35.2 million to finance export receivables.

A total of 160 loans and guarantees, amounting to $38.8 million, was provided to Ontario's tourist industry to help start new facilities and expand and improve existing operations.

The overall spinoff: some 6,190 additional jobs in the first year and 13,570 within five years, with total investments generated soaring to $360.1 million.

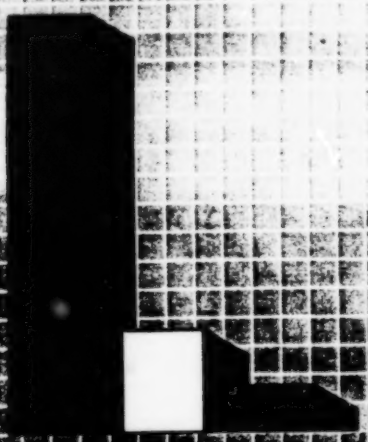
Ontario Development Corporation Loan Activity 1986

Industry 370 loans, $37.1 million

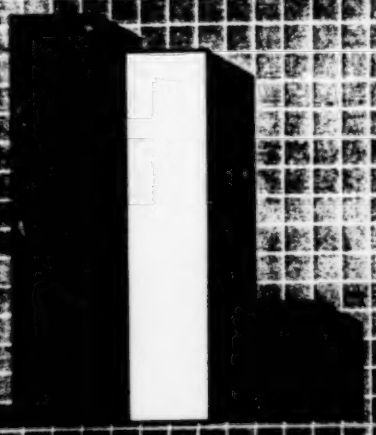
Export, 88 loans, $34.0 million

Tourism 38 loans, $10.8 million

496 Loans



$81.9 Million



Action in Southwestern/ Central Ontario

Classic Boats Restored

Shipbuilding has been part of the Butson family for 150 years – originating in England and reaching Canada in 1905. Today, Butson Boats Ltd. of Port Carling is continuing the tradition, specializing in restoring classic antique boats, mostly the solid mahogany ones built before World War II.

Ron Butson – "I'm the fifth Butson in the business" – is President, and his son, Tim, is Secretary-Treasurer of the firm.

With the help of a $100,000 Ontario Development Corporation loan in 1983, a landscaped, 260 m² (2,800 sq. ft.) production building and matching storage premises were developed. In 1985 a $40,000 loan made further expansion possible when a new paint shop, millroom, lumber storage area and varnish shop were added.

In addition to restoring the classic boats, the Butsons, with the help of 14 employees, also renovate other boats and undertake designing and custom building.

"Nowadays, we are busy with eight boats at any time, with orders booked at least a year ahead," says Ron Butson.

	1 Year	5 Years
Estimated new jobs:	2,848	7,354
$ Value of loans per capita:		$12.80
Total investment generated:	$183.3 Million	

Stimulating the North

Tourists Demand Comfort

Tomahawk Resorts Ltd., located at Sioux Narrows, a popular rendezvous for tourists to the Lake of the Woods district, has been expanded and modernized with the assistance of the Northern Ontario Development Corporation.

It now comprises eight cottages, two houseboats and a large trailer park with washroom, laundry, playground, hiking and other facilities.

"There is more demand by tourists these days for quality accommodation, comfort and a range of facilities," says Albert Kast, President of Tomahawk.

A $70,000 NODC loan in 1973 was used to acquire 25 trailer sites with full hook-up services, and for constructing washroom, laundromat and office buildings, and a sewage system to meet future needs.

With a $100,000 loan in 1985, a second houseboat was bought, and a modern three-bedroom cottage built. Another cottage has since been remodelled – "and this winter two other cottages were renovated; we are continually upgrading," adds Mr. Kast.

Each season (May 1 – October 15) brings more guests, and early bookings indicate "a good 1987 season."

George Melnychuk, President of Resource Technologies Inc. of Sudbury and Arne Sorenson, Director of Loan Applications for NODC and EODC.

	1 Year	5 Years
Estimated new jobs:	2,010	3,043
$ Value of loans per capita:		$36.30
Total investment generated:	$70.4 Million	

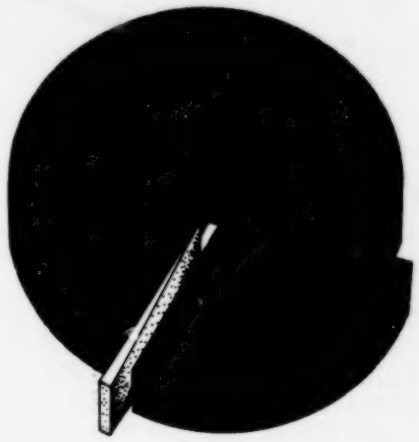
Northern Ontario Development Corporation Loan Activity 1986

Industry 176 loans, $9.9 million

Export 1 loan, $.15 million

Tourism 76 loans, $16.6 million

253 Loans



$26.65 Million

Eastern Ontario Development Corporation Loan Activity 1986

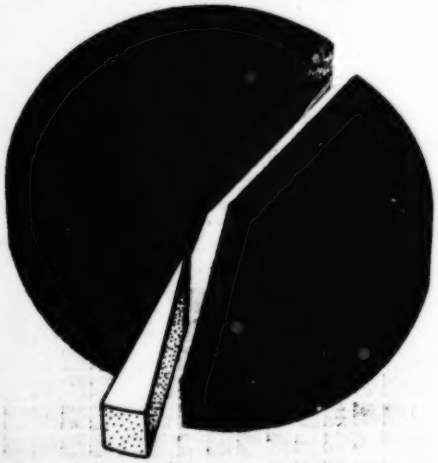
Industry 120 loans, $14.6 million

Export 1 loan, $1.0 million

Tourism 46 loans, $11.3 million

167 Loans

$26.90 Million



High Tech Shines in the East

Hardware for High Tech Industries

Precision hardware, used in the production of highly sophisticated products, is being manufactured in increasing volume by Globus Tool and Die Co. (1983) Limited of Ottawa, to meet growing aerospace, national defence and commercial requirements.

"We have had to expand our facilities and purchase modern equipment to comply with the increased demand for the various components," says Leslie Varhelyi, Globus President.

Two Eastern Ontario Development Corporation loans helped pave the way for the company's development: $125,000 in 1981 and $250,000 in 1986.

"The EODC financial assistance was of great benefit as we pursued our expansion program; and our future prospects are bright – without doubt," adds Mr. Varhelyi.

In the past five years the firm's staff has increased from 14 to 32 employees.

Leslie Varhelyi, EODC consultant Jim Lindsay, and Globus quality control inspector Dale Hoover.

	1 Year	5 Years
Estimated new jobs:	1,332	3,170
$ Value of loans per capita:		$18.42
Total investment generated:	$106.5 Million	

The Development Corporations' Service to Industry

Through selective financial assistance to small businesses, the corporations help encourage Ontario's economic development and increased employment.

Term loans and guarantees to industry are tailored to specific needs, usually as part of a total financial package when traditional funding under normal terms and conditions is not sufficient.

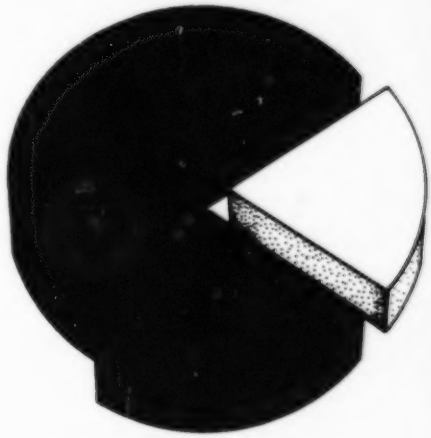
Loans to Industry 1986

ODC 370 loans, $37.1 million

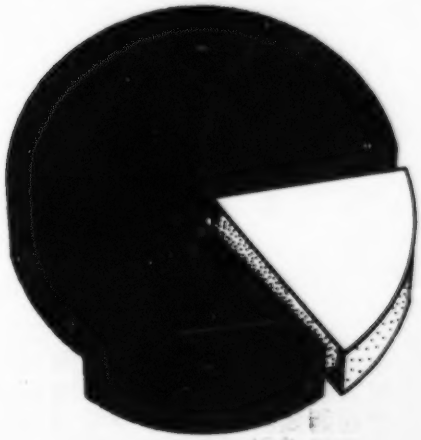
NODC 176 loans, $9.9 million

EODC 120 loans, $14.6 million

666 Loans



$61.6 Million



Production Problems Reduced

L.H.D. Equipment Ltd. of North Bay, a manufacturer of parts for the maintenance and support of mobile equipment in the mining industry, has been able to achieve greater production efficiency with financial assistance from the Northern Ontario Development Corporation.

Within a $100,000 loan in 1983, the firm purchased a computer-controlled lathe, and with another $100,000 loan, secured new premises.

"Through NODC assistance we have remained competitive and have reduced manufacturing problems," says Thomas Fraser, President. The company now has 67 employees, compared to 23 in 1983.

Products include hydraulic cylinders, bushings, pins and miscellaneous parts. Installation of a second automated lathe is being considered.

Ontario Development Corporation Action in Southwestern/ Central Ontario

Ontario accounts for 38 percent of Canada's Gross National Product, and just over 38 percent of the nation's total personal income. A major force in the province's economy is Southwestern and Central Ontario with its strong industrial base and highly-skilled workforce, where some 6.5 million of Ontario's 9-million population is concentrated.

The ODC is responsible for financial activities in this region and plays a major role in stimulating the start-up of new ventures.

Businesses in the region serve a large domestic market and account for more than 90 percent of the province's export trade.

Northern Ontario Development Corporation Stimulating the North

Our focus has been mainly on providing jobs, particularly for young people, who are unemployed as a result of problems in the huge, resource-based sectors of the economy: metals, minerals, pulp and paper, and grain transportation.

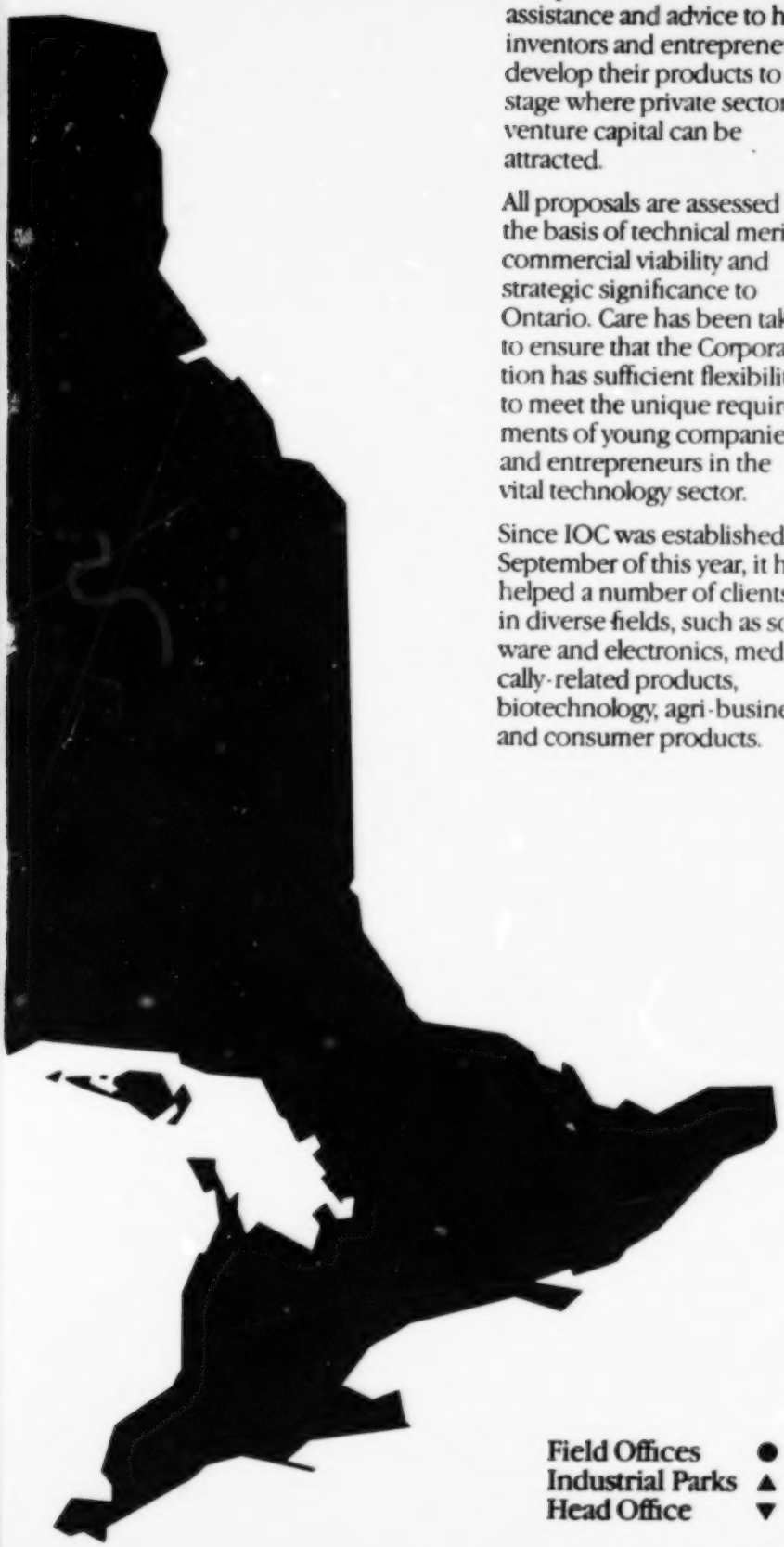
As well, tourist facilities have been encouraged to upgrade premises for year-round operation.

Innovation Ontario Corporation

Innovation Ontario Corporation provides financial assistance and advice to help inventors and entrepreneurs develop their products to the stage where private sector venture capital can be attracted.

All proposals are assessed on the basis of technical merit, commercial viability and strategic significance to Ontario. Care has been taken to ensure that the Corporation has sufficient flexibility to meet the unique requirements of young companies and entrepreneurs in the vital technology sector.

Since IOC was established in September of this year, it has helped a number of clients in diverse fields, such as software and electronics, medically-related products, biotechnology, agri-business and consumer products.



Field Offices ●
Industrial Parks ▲
Head Office ▼

Eastern Ontario Development Corporation High Tech Shines in the East

Textiles, tourism and farming have been key industries in Eastern Ontario, but during the past decade, textiles have had severe competition from low-cost imports, while farming has become capital rather than labor intensive.

These problems have largely been offset by strong growth in microelectronics, telecommunications and defence sectors.

Loans to Exporters 1986

Exports $52.7 million

Loans $35.2 million

The Development Corporations' Service to Exporters

A revolving line of credit is offered to Ontario-based exporters experiencing working capital problems in selling abroad.

Up to 90 percent of the invoice value of shipments may be advanced on receipt of evidence that the goods have been shipped.

Ontario contributes about 50 percent of Canada's total exports, and more than 80 percent of the country's sales abroad of fully manufactured goods.

Last year the corporations' lines of credit amounted to some $35.2 million, extended to 90 companies.

Exports and Jobs Booster

Like many manufacturers, Ontario Store Fixtures Inc., of Weston, realized their future depended on reaching markets abroad.

"The only source from which we could get the necessary financial support was the Ontario Development Corporation," recalls Milton Shier, Chairman and Chief Executive Officer of the company.

In 1978, the firm received an initial $250,000 ODC Export Support Loan. This revolving line of credit for financing export receivables was increased progressively to $1.5 million as sales abroad expanded and staff boosted from 60 to 560.

Last year, exports topped $25 million and the firm was able to raise equity financing through a public share offering. Recently, the company retired its export loan in full.

"Our successes, making us financially strong, could not have been accomplished without the support of ODC," adds Mr. Shier. "It was only through our Export Support Loan that we were able to supply those markets abroad."

For ODC, losing a borrower this way is always a happy event.

Loans to Tourism 1986

ODC 38 loans, $10.8 million

NODC 76 loans, $16.6 million

EODC 46 loans, $11.4 million

The Development Corporations' Service to Tourism

Based on the needs and circumstances of the borrowers, term loans and guarantees are offered for the development, expansion and upgrading of tourist facilities in designated areas.

Tourism is one of the province's largest employers, and it is a major source of foreign income. In 1985, 23.5 million tourists from the United States and 975,000 from overseas visited Ontario.

In 1986, 160 tourist businesses were helped by corporation funding totalling $38.8 million.

They Love the Luxury

Cruises around the Thousand Islands and the St. Lawrence River to Montreal are gaining in popularity and boosting business for Kingston-based Rideau St. Lawrence Cruise Ships.

"It's a comparatively short season (from mid-May to the end of October), but an extremely busy one; we're only in port a few hours after each trip, then off again," says the firm's President, R. W. (Bob) Clark.

Financial assistance from the Eastern Ontario Development Corporation enabled the firm to build and equip the ship 'Canadian Empress', which went into operation in 1982. "Without that assistance we could not have succeeded; by 1984 we were sailing pretty, and now each season gets busier," adds Mr. Clark.

Among the increasing number of passengers are more "repeat passengers." One tourist has made the trip 14 times, and at least another six have travelled the scenic voyage ten times. "They love the luxury and being pampered, and experiencing such wonderful scenery."

A staff of 26, including the Captain, Mate and Engineer, handles the cruises. Most of the employees are university students and college graduates with hospitality training.

Industrial Parks

Two industrial parks, owned and operated by the Ontario Development Corporation, help stimulate regional growth by providing rental space for 24 manufacturers with some 2,200 employees.

They are Huron Industrial Park, a 310-hectare site near Exeter, and the 57-hectare Northam Industrial Park, Cobourg, both formerly military bases.

Huron Park

Twelve companies at the Huron site produce a wide range of products, including automotive parts, auto wiring, anti-abrasive and anti-corrosive linings, membrane roofing, reinforced plywood and chain saws.

The site also incorporates a large bottling plant, the Centralia College of Agricultural Technology, 360 houses (all leased) and a licensed airfield.

One of the three runways is leased to the Ontario Ministry of Transportation and Communications, where it conducts extensive safety tests on trailer trucks, including anti-jack-knifing measures.

Huron Park also accommodates a large gymnasium, sports facilities, Huron Hockey School, and is home to a grocery store, post office, hairdressing salon, laundromat, bank, restaurant and auto service centre.

Northam Park

Products flowing from the Northam Park site include custom extruding, high-tech water cooling coils for CANDU reactors, electric cables, mixing devices for applying glue on fenders, touch-up paint for autos, kitchen equipment and breakfast cereals.

Buildings have enclosed truck docking facilities, and paved roads to the park's three main entrances. ODC handles site maintenance, supplies steam sold to tenants for heating, and owns the spur line connecting each plant to the CN main line.

The firms employ about 1,200 people, and have as institutional tenants a school board and a government facility.

H & K Manufacturing Ltd.

Internationally prominent as the producer of flight kitchen and fast food equipment, H & K Manufacturing Ltd. moved from Toronto (where it was the manufacturing arm of Hospital and Kitchen Equipment Ltd.) to locate at Northam Park in 1972.

Well versed in design, manufacture and servicing of just about every operative need of the food service and hospitality industry, H & K makes ovens, refrigerator systems, counter tops, ice boxes, racks and shelving. It is an approved supplier to several fast food chains, including McDonald's in Canada and the United States.

Its high performance production machinery includes computerized units for forming, notching and punching steel. Strict quality control ensures each item produced is inspected and checked against original specifications.

With an incentive loan of $500,000 provided by EODC, along with federal government assistance, H & K has been able to double its manufacturing plant, expand sales at home and abroad, and increase its payroll.

The Branches

Coordination and Diversity

New business, exports and jobs are generated by the development corporations, while terms and conditions of assistance are shaped to suit the circumstances of individual projects.

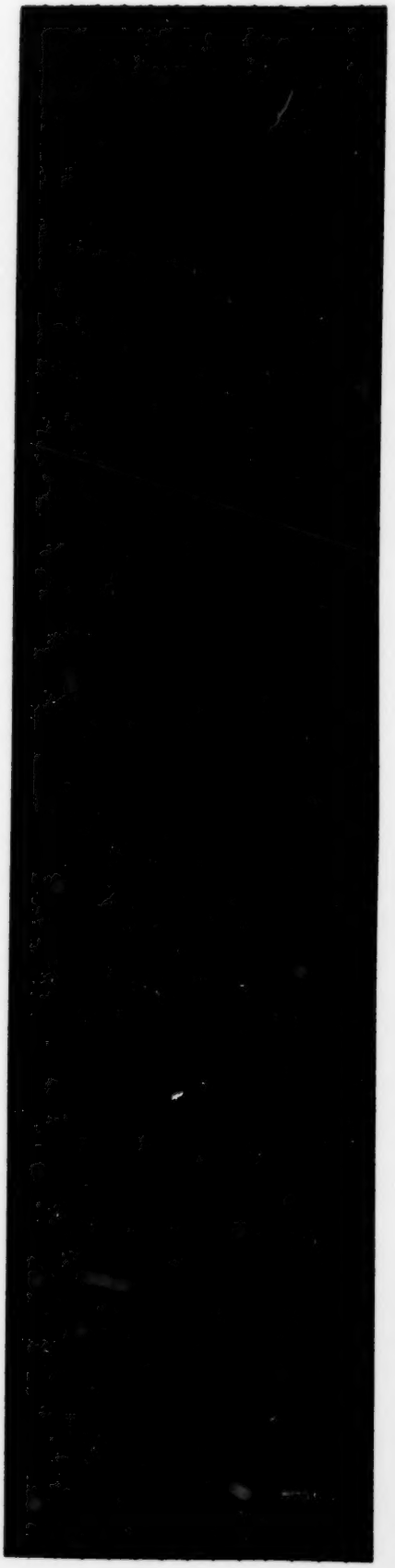
The Loan Application branches assess each application on its own merit against regional, technical, export and social considerations. The branches provide services to clients through 11 field offices, as well as the head office, with two new offices scheduled to open in Northern Ontario in 1987.

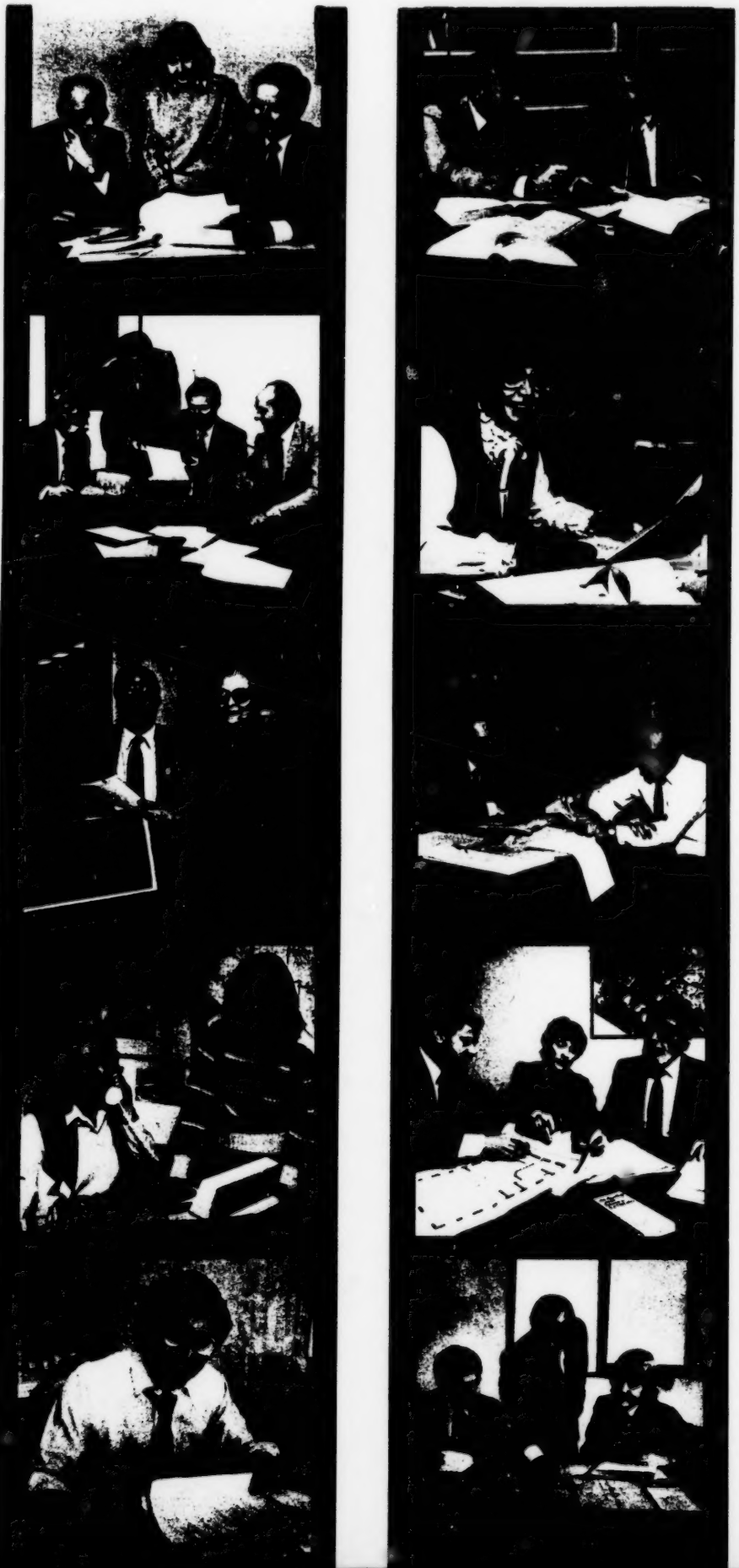
In their agency role the corporations serve as an advisor and financial agent to other ministries and agencies in their financial arrangements with the private sector. Most of this work is done by the Special Financial Services branch; it also participates in multi-million dollar projects proposed by large enterprise.

Administration and systems support comes from the Finance and Administration branch, which also provides accounting services and handles disbursement of approved loans.

Legal documentation to implement financial assistance programs provided by the corporations is created and processed by the Legal Services branch.

Financial aid agreements between the corporations and their clients are monitored and maintained by the Loan Administration branch, which also looks after financial agreements on behalf of some ten ministries, cabinet committees and federal/provincial cost-sharing agreements.





Our Staff

Since 1982, the development corporations' active loan portfolio has increased by almost 28 percent, from 2,144 to 2,739, while the number of new loan and guarantee approvals has risen by an average 18 percent per year.

In the same period, only seven more employees have been added to the staff—a 4.6 percent increase. It all spells teamwork, cooperation, hard work and efficiency.

The Corporations' Programs

The corporations support the development of small businesses in industry, trade, tourism and the service sector. Special emphasis is given to encouraging:

entrepreneurship
job creation
regional diversification
expansion of both international and domestic trade
the development and use of new technology
productivity and competitiveness of Ontario's industrial base
development of the province's tourism industry

The corporations are primarily involved in providing risk capital to small businesses.

Direct Term Loans

Term loans are provided as part of a total financial package, when private sector funding under normal terms and conditions is not available.

Guarantees

In special circumstances, the corporations can also guarantee loans from conventional sources if adequate private sector funding would not otherwise be available.

Export Support Loans

Loans up to $1,000,000 are available to Ontario-based exporters to help finance foreign accounts receivable.

Incentives

Special incentives may be applied to both term loans and guarantees in cases where there is a demonstrated need on the part of the applicant and the proposal carries significant benefits to the province.

Interest Rates

The corporations' basic interest rate is set monthly at the province's medium-term borrowing rate. Rates two percent lower than the basic rate apply to Tourist Loans and Export Support Loans.

Innovation Ontario Corporation

IOC provides equity investment and advice to help inventors and entrepreneurs develop their products to a stage where private sector venture capital can be attracted.

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The Development Corporations

Combined Financial Statements
for the year ended March 31, 1986

To the Ontario Development Corporation,
Northern Ontario Development Corporation,
Eastern Ontario Development Corporation,
and to the Minister of Industry, Trade and Technology:

I have examined the combined balance sheet of the Development Corporations consisting of Ontario Development Corporation, Northern Ontario Development Corporation and Eastern Ontario Development Corporation, as at March 31, 1986 and the combined statements of operations and retained earnings for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these combined financial statements present fairly the financial position of the Development Corporations as at March 31, 1986 and the results of their operations for the year then ended in accordance with the accounting policies described in note 1 to the combined financial statements applied, after giving retroactive effect to the changes in accounting policy described in note 2 to the combined financial statements, on a basis consistent with that of the preceding year.

In accordance with section 24 of the Development Corporations Act, a joint report on the audit has been made to the Development Corporations and to the Minister.

Toronto, Ontario,
September 26, 1986.

J.F. Otterman, F.C.A.,
Assistant Provincial Auditor.

Combined Balance Sheet
as at March 31, 1986

Assets

	1986 ($000's)	1985 ($000's)
Cash and short-term deposits	32,541	32,411
Account receivable		
— Province	6,662	1,661
— other	602	517
Loans receivable (note 3)	289,652	299,114
Long-term investments (notes 2(a) and 4)	263	263
Fixed assets (note 5)	3,752	3,953
Other assets (note 6)	711	781
Total assets	334,183	338,700

Liabilities

	1986 ($000's)	1985 ($000's)
Accounts payable	474	529
Advances from the Province		
– interest bearing	154,410	175,900
– non interest bearing	92,619	85,981
Deferred revenue	5,636	6,016
Total liabilities	253,139	268,426

Shareholder's Equity

	1986 ($000's)	1985 ($000's)
Share capital – authorized and issued: 7,000 shares with a par value of $1,000 each	7,000	7,000
Retained earnings	74,044	63,274
	81,044	70,274
Total liabilities and shareholder's equity	334,183	338,700

See accompanying notes to combined financial statements.

(signed) Douglas J. Johnson
Chairman

(signed) Alex Siversky
Chairman

(signed) Evelyn Goodman
Director

Combined Statement of Operations
for the year ended March 31, 1986

	1986 ($000's)	1985 ($000's)
Revenue		
Interest	23,992	22,027
Net income from industrial parks (note 7)	1,403	1,239
Rental income	27	–
	25,422	23,266
Expense		
Interest on advances	19,062	19,765
Loans written off and guarantees honoured		
– Term	16,185	12,682
– Agency	4,879	2,040
Non-recoverable interest written off	602	–
Guarantee interest subsidy	2,365	1,737
Administration (note 8)	7,154	6,808
Grants (note 2)	4,740	2,900
	54,987	45,932
Loss before recoveries from the Province	29,565	22,666
Recoveries from the Province (note 9)	40,335	32,682
Net income for the year	10,770	10,016

Combined Statement of Retained Earnings
for the year ended March 31, 1986

	1986 ($000's)	1985 ($000's)
Balance, beginning of year	63,274	53,258
Net income for the year	10,770	10,016
Balance, end of year	74,044	63,274

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements
March 31, 1986

1. Significant Accounting Policies

a) General

These combined financial statements include the accounts of Ontario Development Corporation, Northern Ontario Development Corporation and Eastern Ontario Development Corporation.

b) Loans written off

The write off of loans receivable is recovered from the Province by corresponding reductions in advances from the Province. In 1986, as directed by the Province, all amounts deemed uncollectible were written off.

c) Guaranteed loans paid

The honouring of guarantees is funded by the Province and therefore, no provision is made.

d) Recoveries of loans written off and guarantees honoured

Any amounts recovered on loans previously written off and guarantees previously honoured are paid directly to the Province and are not reflected in the Statement of Operations.

e) Revenue

Interest revenue is recognized as income using the accrual basis of accounting except in the case of loans where the receipt of interest is deferred for one year or more. For these loans, revenue is recognized as income on receipt.

f) Deferred revenue

Interest accrued on loans for which repayment has been deferred (see note 1(e) above) is recorded as deferred revenue until such time as interest is actually received.

g) Fixed assets

Equipment purchases are charged to expense in the year of acquisition, except for the Industrial Parks operations, for which all such amounts are capitalized. Depreciation of these fixed assets is provided for on a straight-line basis, using rates of from 5 to 20 per cent per annum for buildings and improvements, and 20 per cent per annum for equipment. Buildings acquired as a result of loan defaults by borrowers (see note 6) were capitalized and are depreciated on a straight-line basis at the rate of 5 per cent per annum.

h) Long term investments

The Corporations account for long term investments on the cost basis.

i) Administration expenses

These expenses are reflected on a cash basis which is modified to allow an additional 24 days to pay for goods and services pertaining to the fiscal period just ended.

2. Retroactive Changes in Accounting Policy

a) With regard to the long term investment in Allelix Inc. (see note 4) there has been a change in the accounting for payments made towards operating costs. Formerly these payments were capitalized and reported as long term investments because these payments carried rights to acquire equity shares at a nominal cost. These payments are now accounted for as grants and are recovered from the Province. The effect of this change on the current year's operations has been to reduce both long term investments and advances from the Province by $4.7 million and to increase both expense and recoveries from the Province by $4.7 million.

This change has been applied retroactively to previously reported balances, resulting in a reduction in long term investments and in advances from the Province of $5 million (1985 – $2.9 million; pre 1985 – $2.1 million), and a corresponding increase in expense and in recoveries from the Province.

b) The Corporations receive transfer payments from the Province which are disbursed as conditional loans. These loans were previously recorded as loans receivable and as deferred revenue because the loan agreements contained provisions for deferred repayment or forgiveness. These loans are now considered as assets administered in trust for the Province. Any repayment of the loans will be returned to the Province as a recovery of prior year expenditures. Any interest received from the borrowers will continue to be recorded as revenue when received by the Corporations.

The effect of this change is to reduce loans receivable and deferred revenue by $20.8 million. This change has been applied retroactively to balances previously reported in 1985 resulting in a reduction of $18.8 million to both loans receivable and deferred revenue. See also note 3.

3. Loans Receivable

	1986 ($000's)	1985 ($000's)
Term	215,027	236,572
Agency	74,625	62,542
	289,652	299,114

Agency loans represent loans approved and funded through programs of other provincial ministries and agencies, but the agreements are signed and managed on their behalf by the Development Corporations. Included in Agency loans is a loan of $15 million to Canada Development Corporation and John Labatt Limited for the construction of research facilities for Allelix Inc. (note 4). The borrowers may transfer title of these facilities to the Ontario Development Corporation in lieu of the repayment of the principal and interest due on March 31, 1992.

In addition, the Ontario Development Corporation administers loan agreements signed by other Ministries and therefore not reflected in the financial statements of the Corporation. In 1986, there were 33 such loans amounting to $26.6 million.

Also not reflected in the financial statements are transfer payments received from the Province which have been disbursed as conditional loans (see note 2(b)). Details of transactions relating to these loans are as follows:

	1986 ($000's)	1985 ($000's)
Loans outstanding, beginning of year	18,802	8,891
Add: loans disbursed	5,579	11,427
Less: loans forgiven	(3,555)	(1,516)
Loans outstanding, end of year	20,826	18,802
Cash yet to be disbursed as loans	1,176	813

4. Long Term Investments

a) Allelix Inc.

The Ontario Development Corporation owns a 20 per cent equity interest in Allelix Inc., a joint venture with the Canada Development Corporation (50 per cent) and John Labatt Ltd., (30 per cent), which conducts pure and applied research in industrial and agricultural applications of biotechnology. As a condition of this investment each shareholder contributes towards the operating costs in the ratio of his investment. The Corporation's share to date was $9.7 million.

The investment consists of 200 common shares, at cost – $200, and 47,000 redeemable preference shares, at cost – $470.

b) HSA Systems Inc.

The Ontario Development Corporation owns a 35 per cent equity interest in HSA Systems Inc. having a cost of $262,500. The operations of this corporation have been wound down and no proceeds realized. The Province will reimburse the Corporation for any losses incurred.

5. Fixed Assets

Fixed assets relate primarily to the Industrial Parks and are stated at acquisition cost, less accumulated depreciation as follows:

	1986			1985
	Cost ($000's)	Accumulated Depreciation ($000's)	Net ($000's)	Net ($000's)
Land	226	–	226	223
Sheridan Park Land	341	–	341	341
Buildings and improvements	11,495	8,481	3,014	3,243
Equipment	787	616	171	146
	12,849	9,097	3,752	3,953

6. Other Assets

Other assets consist of the following assets obtained as a result of loan defaults by borrowers:

	1986 ($000's)	1985 ($000's)
Investment in shares, at cost	301	301
Land and buildings, at 1977 appraised value plus subsequent additions at cost, less accumulated depreciation of $56,000	75	132
Net investment in lease	335	348
	711	781

7. Industrial Parks Operations

	1986 ($000's)	1985 ($000's)
Revenues from rent, utility charges and interest	4,234	4,081
Less: operating expenses	1,933	2,010
depreciation	898	832
Net income	1,403	1,239

8. Administration

The cost of administration is borne by the Province through the Ministry of Industry, Trade and Technology (MITT). Details of administration expenses are as follows:

	1986 ($000's)	1985 ($000's)
Salaries and staff benefits	5,739	5,400
Transportation and communication	628	577
Services	491	511
Supplies and equipment	237	275
Total expenses reimbursed by the Province	7,095	6,763
Other expenses	59	45
	7,154	6,808

9. Recoveries from the Province

The Province reimburses the Corporations for interest expense where the cost of funds exceeds interest charged on a loan, for administration expenses (note 8), for term loans written off, for guarantees honoured, for guarantee interest subsidies, and for grants.

10. Contingent Liabilities

a) As at March 31, 1986 contingent liabilities arising from guarantees of bank loans and other guarantees amounted to $102.6 million (1985 – $100.2 million).

b) A legal action claiming damages of $4.5 million plus interest has been instituted against the Corporations and others by a former shareholder of Minaki Lodge Resort Ltd. and Minaki Development Company Limited. Legal counsel of the Corporations is of the opinion that the claim is without merit.

11. Commitments

Loans committed but not disbursed as at March 31, 1986 amounted to $73.3 million (1985 – $68.8 million). In connection with the investment in Allelix Inc. there is a commitment for additional research contributions of $5.3 million to be financed by MITT.

12. Transfer of Wholly-owned Subsidiaries

During the fiscal year all of the outstanding shares of Minaki Lodge Resort Ltd. and of Minaki Development Company Limited were transferred from the Northern Ontario Development Corporation to the Ministry of Tourism and Recreation for no consideration.

13. Subsequent Events

a) On May 9, 1986, the Ontario Development Corporation, acting as agent for the Province, entered into agreements and acquired equity interests for no consideration as part of a restructing of Massey Ferguson Ltd.

b) On July 1, 1986, the Ontario Development Corporation assumed responsibility for the seven subsidiaries of the IDEA Corporation. These subsidiaries held investments and commitments which have a value yet to be determined by the Ontario Development Corporation.

c) On September 15, 1986, the Innovation Ontario Corporation was established by regulation under the Development Corporations Act as an agency of MITT. Administrative support services will be provided by Ontario Development Corporation and MITT. Program costs are estimated at $5.3 million for fiscal 1986-87.

14. Comparative Figures

Certain of the 1985 figures have been reclassified to conform with the 1986 combined financial statement presentation.

Government
of Ontario,
Canada